

BUDGET AND PERFORMANCE PANEL

Housing Revenue Account Budget and Capital Programme 31 January 2006

Report of Councillors Barker and Pritchard

PURPOSE OF REPORT					
This report updates the Housing Revenue Account revised budget position for the current year and sets out the recommended budget for 2006/07 and future years. It also sets out the updated Capital Programme for 2005/06 and a proposed programme to 2010/11.					
Key Decision		Non-Key Decision		Referral from Cabinet Member	X
This report is public.					

This report went to Cabinet on 17th January 2006.

RECOMMENDATIONS OF CABINET MEMBER

1. That the Housing Revenue Account Revised Budget for 2005/06 be recommended to Council for approval, with the decrease in net expenditure being transferred to revenue balances.
2. That the Housing Revenue Account Budget for 2006/07 be recommended to Council for approval.
3. That average council housing rents for the year commencing 01 April 2006 be set at £51.50, in line with the Government's recommended cap of a 5% year on year increase, subject to Government introducing arrangements for compensating authorities for lost rental income.
4. That Cabinet recommends to Council that the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2006, and that the Statement on Reserves and Balances be noted and referred to Council for information.
5. That future budget projections also assume a 5% year on year increase in average rents, on the basis that Government continues to compensate authorities accordingly.
6. That the revenue budgets and capital programme are referred to the District Wide Tenants Forum for information.

Introduction

The Council is required under statutory provisions to maintain a separate ring-fenced account for all transactions relating to the provision of local authority housing, known as the Housing Revenue Account (HRA). This account includes all transactions relating to the maintenance and management of the Council's housing stock.

It is therefore necessary to prepare separate revenue and capital budgets for the HRA each year, and to set the level of housing rents in sufficient time for the statutory notice of rent variations to be issued to tenants by 01 March. In order to meet this deadline, it is recommended that Cabinet set the rent increase for 2006/07 at this meeting, and recommend a balanced budget and fully financed Capital Programme to Council for agreement on 08 February 2006.

1 2005/06 REVISED BUDGET

1.1 A review of the current Housing Revenue Account budget has been undertaken and this shows a net decrease of £75,800 when compared with the original budget, resulting in a transfer of £600 surplus to HRA general Balances in contrast to the budgeted £75,200 deficit. A summary statement is set out at **Appendix A**.

1.2 The main variations are set out below.

	£'000
REDUCTIONS IN COSTS:	
Dwelling rents – slow down in sales.	-66
Employee Costs – posts held vacant pending restructure	-27
Other minor budget reductions	-24
INCREASES IN COSTS:	
Housing Subsidy – payments to Central Government	+9
Additional Contributions to Earmarked Reserves	+32
Net Budget Changes	-76

1.3 Taking account of the draft Revised Budget detailed above, HRA Balances would be as follows:

	2005/06 Original Budget £'000	2005/06 Revised Budget £'000
Balance brought forward from 2004/05	637	1,033
Transfer to/(from) Balances	(75)	1
Surplus Balance available	562	1,034

1.4 Cabinet are recommended to refer the HRA Revised Budget for 2005/06 to Council for approval.

2 2006/07 BASE BUDGET AND FUTURE YEARS' PROJECTIONS

2.1 The draft budget has now been prepared for 2006/07 with projections for 2007/08 and 2008/09. The budgets are set out in line with Accounting Requirements. Specific aspects of the budget proposals are outlined in more detail below.

2.2 Housing Subsidy

2.2.1 The Final HRA Subsidy Determinations were published on 20 December 2005, and the key areas to note are as follows:

- **Management and Maintenance Allowances** have again increased significantly above inflation.
- **Guideline Rents:** there have been a number of technical changes in the calculation of assumed rental income that is taken account of in determining the level of subsidy, and overall this increases the net payment that must be made to Central Government.

2.2.2 The following table shows current projections of Subsidy for Lancaster to 2008/09:

	2005/06 Revised Budget £'000	2006/07 Budget £'000	2007/08 Projection £'000	2008/09 Projection £'000
Management Allowance	1,520	1,774	1,966	2,134
Maintenance Allowance	3,316	3,603	3,924	4,162
Major Repairs Allowance	2,184	2,240	2,257	2,284
Admissible Allowance	56	56	50	50
Charges for Capital	1,841	1,791	1,741	1,691
	8,917	9,464	9,938	10,321
LESS: Guideline Rent	-9,392	-10,072	-10,701	-11,235
ADD: Compensation re: 5% Average Rent Cap		176	180	185
Interest on Receipts	-8	-5		
Negative Subsidy Payable to SoS	-483	-437	-583	-729

2.3 Council Rent Levels

2.3.1 Central Government sets a 'Limit Rent' for each authority as part of the Subsidy Determinations. If a Council sets its rent above this level it will be penalised by way of Rent Rebate Subsidy Limitation.

2.3.2 The Determination for 2006-07 introduces a number of changes to the calculation of the Limit Rent. This is the key element in an initiative, first introduced in April 2002, which was designed to produce convergence and then, by 2012, consistency between rent levels across the Social Housing sector, including both local authorities and housing associations. The changes have a significant impact. If applied in full they would result in an average increase in the Council's rents of 7.8%, but this has been countered elsewhere within the Determination, which caps the average increase to 5.0%, and this latter figure is the recommended rise. Within this, the highest indicative rise for an individual property is 6.6%. The result is an average weekly rent of £51.50 (over 52 weeks).

- 2.3.3 In introducing an 'average cap', Government has acknowledged that authorities who are affected should be compensated for lost rental income, and that this should happen in the year concerned. For the City Council the loss of income is in the region of £176K and it has been assumed that this will be compensated through additional subsidy. As yet, however, Government has not published its proposals on the mechanism to achieve this; consultation is expected 'in the New Year'. Various authorities have voiced their concerns regarding how this impacts on the rent and budget setting process and associated timescales.
- 2.3.4 Given this uncertainty, but recognising the need to issue rent notices by 01 March, it is recommended that average council housing rents for the year commencing 01 April 2006 be set at £51.50, in line with the Government's recommended cap of a 5% year on year increase, but this be subject to Government introducing arrangements for compensating authorities for lost rental income. If there is a need to alter this resolution, this will be done through urgent business and any changes would be incorporated into the referral report to Council.
- 2.3.5 The budget projections attached at Appendix A include rent income at the proposed level and associated subsidy. If rents were to be increased beyond the Limit Rent level then each 1p rise in weekly rent would produce additional income of approximately £2,000, but against this would have to be offset a loss of subsidy of approximately £1,200, giving net income of just £800. Given this in context of the HRA position overall, there seems little incentive to exceed the guideline maximum.

2.4 **Star Chamber**

- 2.4.1 A number of budget proposals arose from the Council Housing Star Chamber held in November of last year, details of which are set out at **Appendix B**; in total they amount to a net saving of £31K in 2006/07, and £21K in future years. These have been built into the draft budget for Cabinet and Council's approval.

2.5 **Reserves and Balances**

- 2.5.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Head of Financial Services takes account of the strategic, operational and financial risks facing the authority. Progress continues to be made in reviewing and clarifying these, in strengthening the Council's approach to risk management generally. In addition, the Officer needs to take account of the effectiveness of internal financial and other controls; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in **Appendix C**.
- 2.5.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA balances at £350,000 to support the next three years' budget forecasts, as part of the overall Medium Term Financial Strategy. Should Members choose not to accept this advice, then this should be recorded formally in the minutes of the meeting.
- 2.5.3 In effect, setting the minimum level of balances at £350,000 would mean that funds are available to support increased financing of capital via Direct Revenue Financing (DRF). Such use is reflected in the HRA budget proposals as set out in Appendix A. It can be seen from this that HRA balances are maintained at just the minimum level

in future years. This is because all other available resources have been applied to funding the capital programme (via DRF), thereby allowing Major Repairs Reserve monies to be built up to support the 30-year Business Plan.

- 2.5.4 Cabinet may recall that in order to fund the Business Plan, resources of approximately £8M would need to be set aside by 2010. Under the budget proposals, improvements on the revenue account (e.g. through subsidy changes and rental income) mean that based on current forecasts, £5.2M would be set aside by the end of 2008/09, and this represents a substantial £1.5M improvement to the position as forecast a year ago. The recent changes in subsidy highlight the sensitivity attached to medium term forecasting, however.
- 2.5.5 A draft statement on all reserves is attached at **Appendix D**. These are viewed as adequate for the period covered, but will need to be reviewed regularly as shown. Cabinet is asked to note this information, with the Statement being referred on to Council in support of its HRA budget and housing rent proposals. On a specific note Members may note that at present, no specific reserve has been created in respect of Job Evaluation. Given the size of the HRA pay bill in comparison to General Fund, and taking account of the very recent changes to the pay structure for Repair and Maintenance Services, it felt that this is an acceptable position to manage but it will require reviewing during the coming year.

2.6 Overall Position

If rents were to be set in line with the recommended increase and the other various budget issues were approved as set out above, the overall position regarding the HRA budget would be as set out at **Appendix A**. This shows that for 2006/07, after allowing for £2.2M Direct Revenue Financing of capital as mentioned above, there would be a deficit of £683K to be funded from balances. Thereafter future years would break-even, after taking account of the need to balance the Capital Programme (see sections below).

In essence the above proposals mean that a substantial proportion of revenue funding would be used to support capital spending, with surplus resources being held in the Major Repairs Reserve. If in future, however, there was a need to switch available resources between revenue and capital, this could easily be facilitated.

3 REVISED CAPITAL PROGRAMME 2005/06

- 3.1 The Council Housing Capital Programme was set at £3.945M by Council on 09 February 2005. This programme has since been updated by Cabinet for the addition of £1,344,900 of slippage on 06 September 2005 and subsequently for a number of other changes. The revised programme, which totals £5.290M is attached at **Appendix E**.

4 CAPITAL PROGRAMME 2006/07 TO 2010/11

- 4.1 Other work has also been undertaken on the Capital Programme for 2006/07 to 2010/11. As in previous years the programme has been driven primarily by information in the HRA Business Plan, which was developed from the Stock Condition Survey in line with the 'Lancaster Standard' for maintenance of the housing stock.

- 4.2 One of the outcomes from the recent Stock Options Appraisal was that future years' programmes should be set in line with the HRA Business Plan wherever possible. The recommended Capital Programme is set out at **Appendix E**. Whilst this has been extended into 2010/11, other than the Direct Revenue Financing changes set out above, there are no other major changes proposed to balance the 5-year Programme.
- 4.3 As mentioned earlier, the Business Plan shows that surplus resources of approaching £8M should be set aside over the next five years or so in order to fund later years, and it is still necessary to do further work in understanding how such financial projections contained in the HRA Business Plan link with the projected revenue and capital budgets. It is intended that this will be a priority area to address during 2006/07.

Details of Consultation

It is intended that the draft Revenue Budget and Capital Programme will be presented to a meeting of the District Wide Tenants' Forum. Subject to timing, it is intended that any views expressed by the Forum will be included in the report to Council on 08 February 06.

Options and Options Analysis (including risk assessment)

With regard to the Revised Budget Cabinet could consider other proposals that may influence the Revised Budget for the year and the call on revenue balances.

The options available in respect of the 2006/07 rent increase are to:

- i) Set the average housing rent as proposed, in line with the 5% cap;
- ii) Set the rent at a lower level: this would reduce the income available to the Housing Revenue Account;
- iii) Set the rent at a higher level: although this would generate additional income if above the Limit Rent, around 60% of that income would have to be paid over to the Government through Rent Rebate Subsidy Limitation.

The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level.

The options available in respect of the revenue budgets for 2005/06 to 2007/08 are to recommend the budget as set out to Full Council for approval, or to consider other proposals for incorporation.

The options available in respect of the Capital Programme are:

- i) To approve the programme in full, with the financing as set out;
- ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.

Any risks attached to the above would depend very much on what supported measures Members proposed, and their impact on the council housing service. As such, a full options analysis could only be undertaken once any alternative proposals are known. It should be noted that Officers may require more time in order to do this.

Officer Preferred Option and Comments

The Officer Preferred options are in line with the Cabinet Member's recommendations.

RELATIONSHIP TO POLICY FRAMEWORK

The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

SECTION 151 OFFICER'S COMMENTS

The section 151 Officer has been consulted in the preparation of this report and her comments are reflected accordingly. Her explicit legislative requirements in terms of reporting on the robustness of the estimates and budget process, and updates on these matters, will be covered in future reports to Council also.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS
HRA Subsidy Determinations

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